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USDA U/S KEENUM
FAS/OA YOST, MILLER, JAKCSON
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SUBJECT: Food Prices: It All Hinges on Rice

REF: (A) Jakarta 000088; (B) Jakarta 000264; (C) Jakarta 000286

11. (SBU) Summary. Government of Indonesia (GOI) concern about the impact of rising rice prices continues to grow as world rice prices soar. Coordinating Minister for the Economy Boediono has requested World Bank (WB) assistance in determining the outlook for rice prices in Indonesia and outlining policy options to maintain affordable rice for Indonesian consumers. Emboffs met with the WB's US-based consultant 11 April and 15 April to obtain preliminary details of likely GOI actions and to gain insight on the dynamics of international rice prices. For the time being, the GOI is attempting to minimize rice exports and smuggling, while hoping for confirmation of an ample harvest. It is not clear how long the GOI can maintain these policies, given the \$400 per ton spread between Indonesian and world rice prices. End Summary.

Rice Prices Worry GOI

12. (SBU) Government of Indonesia (GOI) concern about the impact of rising rice prices continues to grow as world rice prices soar. The poor and near poor (roughly half the population) spend up to one third of their income on rice, underscoring the impact of price increases on the average Indonesian. In recent months rice prices in Indonesia have remained steady, but international rice prices continue to soar. The wholesale price of rice per ton rose \$180 in early April alone, and now stands at \$900 per ton. The wholesale rice price in Indonesia is roughly \$500 per ton. In response to these trends, Coordinating Minister for the Economy Boediono has requested World Bank (WB) assistance in determining the outlook for rice prices in Indonesia and outlining policy options to maintain affordable rice for Indonesian consumers.

India, Vietnam and China Restrict Exports

13. (SBU) On April 11, Tom Slayton, a well respected global rice analyst working on the GOI-sponsored WB project, provided Emboffs with a candid assessment of the current world rice situation.

According to Slayton, the surge in global rice prices is directly related to actions to restrict exports by several countries, and panic issuance of tenders by the Philippine Government, rather than an absolute supply shortfall. Export bans in India, export restrictions in Vietnam and export taxes in China have created a 4.0 million metric ton (MMT) hole in the current international trade regime for rice. The result is the most precipitous rise in rice prices in 35 years. Although a reversal of these policies or the sale of large Japanese and/or Chinese rice stocks would alleviate rice price pressure, Slayton was not hopeful that these policies would materialize in the near term. That leaves Thailand as the principal origin for global trade in rice for the near term. Yet the Thais are over committed from Slayton's perspective, and will be unable to meet international demand. At its current pace, Thailand would export 13 MMT this season, but the Thai crop will probably only allow 9 MMT of exports. If additional stocks are not released, Slayton believes rice price could rise as high as \$1200 per MMT before the end of the year.

The Indonesian Situation

14. (SBU) Indonesian rice production is up, but the wide margin between Indonesian and international prices will be difficult to maintain. Indonesian rice harvest prospects, while not as rosy as those announced by the Ministry of Agriculture, are nevertheless better than last year. The main harvest on Java is currently in full swing, and FAS/Jakarta estimate production at 35.5 MMT (milled basis), 200,000 MT above the 2007 level. The real question for Indonesia is how long the GOI can constrain exports and limit smuggling given a \$400/MT spread between the Indonesian and world prices. According to Slayton, the GOI is preparing to restrict private sector trade, with any exports should conditions warrant to BULOG, the national logistics agency, in an effort to maintain price levels. Slayton views the GOI's proposed actions as constructive in the short term. However, GOI targets for BULOG rice purchases are in the 2.4 - 3.0 MMT range, with perhaps 650,000 MT already in store. While the lower range of BULOG purchases may be possible if harvests are strong, the high-end of that range is unrealistic. Should the harvest fail to meet current projections, Indonesia would need to import rice later this year at prices that could be roughly double the local price, or higher.

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